

Examiner's report

P5 Advanced Performance Management

June 2012

The ACCA logo is a black square with the letters 'ACCA' in white, bold, sans-serif font.

Introduction

Firstly, I would like to offer my congratulations to all of those candidates who achieved a pass at this diet and my commiserations to those who did not.

In this report, my aim is to indicate areas of good and poor performance with the specific additional purpose of helping future candidates assess what is required of them.

The examination paper comprised two sections, A and B. Section A consisted of two compulsory questions for 66 marks in total. Section B consisted of three optional questions for 17 marks each from which candidates were required to answer two questions. (The slight change in weighting in marks in sections A and B in this diet reflected the questions written and the time required for their answers). This is in line with the broad plan for the allocation of marks on this paper and there is not an absolute rule that there will be 60 marks in section A and 40 in section B –

General Comments

In general, it was encouraging to see some candidates applying good analytic reasoning and making use of the detail provided in the scenario. Most examinations require a balance of memory work and evaluation/analysis. As one goes through the levels this balance changes, from pure memory to more analysis. Good candidates distinguish themselves by being aware that if they come to this examination expecting to repeat memorised material, they will probably score only between 20% and 30%.

The basis of this examination is analysis and application. The candidate will need a foundation in the techniques of the syllabus but should focus more on evaluation of these techniques and consideration of their usefulness to the given scenario. This is not difficult to revise as it is a mindset that can easily be encouraged by considering past papers as an integral part of the revision process. Candidates need to be aware that performance management is an area which, at an advanced level, is dependent upon situation and environment. A good, professional-level answer will go beyond the mere repetition of how a technique works and focus on relating it to the entity's specific environment. It was very clear to the marking team at this diet that, typically, those candidates that had grasped the need for this went on to pass the paper with ease.

The overall quality of the numerical working and the commentary on the results remains an area of concern. The ability to accurately calculate performance measures and then cogently discuss the results in a way that a business will find useful is lacking in many candidates. This is a basic skill that it is very disappointing that candidates have reached the level of P5 without grasping. A simple illustration of this point on accurate calculation and presentation of numerical information is the sloppy approach taken to rounding numbers so 229.6 does not round to 229 and if a candidate is preparing a table of data then all the rounding should be consistent either to a certain number of significant figures or decimal places. The accountant is often expected to be the expert on numerical issues in a business situation and this sort of obvious carelessness dents that reputation. On commenting on numerical work, there were numerous examples of scripts that limited themselves to basically putting into sentences the numbers calculated, e.g. 'Amal has a higher profit margin than either Kayland or Cheapo.' This is inadequate and gained no credit as a comment. This has been commented on in many previous reports and disappointingly, there has not been significant improvement over the diets in this aspect of candidates' performance.

In advising those who will review this paper in the future, I must give some well-worn suggestions. Firstly, some candidates are not spending sufficient time on reading the question and understanding its requirements. I wrote an article on this point which has appeared on the ACCA website but the lessons still do not appear to have been

learned. For example, markers frequently commented on answers to Q1(i) which instead of reviewing the performance *report* of the company, reviewed the performance of the company in the scenario.

Secondly, there was evidence that the syllabus is being only partially studied. I am afraid that I can offer no words of encouragement to those who insist on playing this risky game with the examinations. There was evidence on Q2(b) on the performance prism, Q3(a) on six sigma and Q4 on benchmarking that these areas had been only superficially covered by candidates in their studies.

Finally, in the style of presentation of answers, candidates should avoid the unexplained use of jargon. It is possibly due to the candidates' lack of confidence in applying their knowledge that there is a tendency to simply put down lists of jargon phrases and hope for marks. As in previous diets, better presented answers, which demonstrate neat layout, logical structure and a readable style, offer an easier opportunity for markers to understand and so credit the points being made – this is something that will always remain an important point for candidates preparing for P5.

Specific Comments

Section A

Question One

The question concerned the performance reporting and management at a restaurant. This question strikes at the core of the skills of a strategic performance advisor – assessing and improving existing performance reporting, calculating and evaluating the use of certain performance measures and considering how measurement and reporting impact on management. The question was generally poorly done with many candidates lacking the analytical and critical skills needed to produce a good answer.

Part (i) required candidates to assess and suggest improvements to the existing (poor) board report in terms of its content and presentation. Generally this part was done well as candidates used the report given to make specific criticisms and suggestions for improvements of format and content in a straightforward and practical way. However, as in previous diets, a number of candidates chose to answer a different question ('critically assess the performance of Metis') and sadly, this scored few marks.

Part (ii) required candidates to calculate and evaluate the use of NPV, MIRR, EVATM and other profit-based performance measures. Candidates' performance in this part was disappointing with many simple marks for NPV and EVATM calculations going begging. This probably demonstrated a lack of question practice in preparation for the examination. The MIRR calculation was simple but a little more obscure – those who assumed that the cost of capital (12.5%) applied to both the return and investment phases gained some credit but could not score full marks as the question made clear the different rate for the return phase. The work on more standard profit-based measures was generally done well.

Part (iii) required candidates to consider the impact of performance measurement on activity within the organisation. It was clear that many candidates had not considered this issue which is a central problem for managers of performance. There were several examples of these issues given specifically within the scenario for candidates to use as illustrations. Many candidates chose to simply repeat their points from part (i) which was insufficient to address their use in illustrating the quote in the question requirement. However, it was pleasing to see some good efforts being made to try to reason through to the answer using the scenario information.

Finally, there were 4 marks for the professionalism demonstrated in the style, structure and clarity of the report requested. Candidates showed good ability in this area which is generally gained through practising writing answers during revision.

Question Two

The question concerned an airline (Amal) and began by describing the company and the business issues that it faced and then gave details of its competitors. Overall, the question was reasonably attempted with those who attended to the issues facing Amal (need for cost cutting, problems with the workforce, redesign of the website, investment in better aircraft) scoring well.

Part (a) required candidates to use the data provided to select appropriate performance indicators and analyse the three airlines. The quality of answers to this part was mixed. Some candidates scored highly by selecting appropriate indicators for Amal (focussing on its problems: profits, fuel costs) and the key drivers of such an industry (e.g. utilisation of seats). They then provided a commentary which showed how the indicators linked to the strategies of the 3 companies and also the issues mentioned. Poor answers simply created measures by apparently going down the list of data given in the question creating random ratios. These were then often followed by comments that lacked any further commercial value such as 'Amal's operating margin is higher than the other companies.' Good answers used their numerical work as an opportunity to show that they had understood the scenario by commenting further e.g. 'this is not surprising as Amal is a 'premium' airline.'

Part (b) required candidates to apply the performance prism to Amal and suggest improvements in performance, performance management and performance measures. This part was either done well or badly depending on whether the candidate knew the performance prism. Most candidates knew the model and were successful in applying it to the scenario, so they scored highly.

Section B

Question Three

The question concerned a mobile telephone network provider (Thebe) which was planning a six sigma, quality improvement programme centred on improved customer billing. This question was fairly popular. Candidates who knew what the acronym DMAIC stands for realised that they could at least score well in part (b).

Part (a) required candidates to discuss the general ways in which six sigma could help to improve quality at Thebe. This was poorly answered with much evidence of candidates trying to use DMAIC as a template for an answer when the question was asking about the six sigma method (in general) and not a specific implementation method. This was possibly caused by not reading the whole question before starting to answer part (a). Nevertheless, it was possible to score some marks with this approach although the themes of Pande and Holpp were more relevant and those who used these scored close to full marks in this part.

Part (b) required candidates to illustrate how a specific method of implementing six sigma (DMAIC) could be applied at Thebe. This part was usually done very well by the candidates who attempted it. Many candidates scored full marks by describing each of the steps and then illustrating the step with a relevant comment for Thebe.

Question Four

The question concerned a university (Ganymede) which was in the process of undertaking a benchmarking exercise with two other universities in its country. This was easily the most popular question in section B. Overall, answers were disappointing to what ought to be a straightforward question in a P5 examination.

Part (a) required candidates to assess the progress of the benchmarking exercise. This required knowledge of the steps involved in such an exercise and an ability to see what had and had not been completed in the scenario example. Answers were generally unstructured with those that laid out a set of steps in the benchmarking process scoring best. Nevertheless, a general understanding of the method was present but this had to be combined with suitable comments about Ganymede's current progress in order to gain a pass mark.

Part (b) required candidates to evaluate Ganymede's benchmarked position. This ought to have been a straightforward analysis of the data table given. However, as mentioned earlier, candidates displayed a disappointing lack of judgement over what constitutes useful advice in this scenario and failed to use the indicated drivers in order to calculate suitable relative measures. Also, as in Question 2 (a), the commentary was often restricted to the unnecessary writing out in a sentence the output of the table, e.g. 'GU has the highest research contract value', with no value-adding (and mark-scoring) comments attached.

Question Five

The question concerned an e-tailer (Callisto) with a complex business structure. This was the least popular question in section B, probably as it did not follow some pre-ordained method. However, those who used the information in the scenario to good effect were usually able to gather the marks to pass.

There was only one requirement for the question on the difficulties of performance management and measurement in such a complex business as Callisto. Candidates were correct to split this into areas such as the general impact of such a complex structure on the business as a whole and then the impact on employee management and strategic partner management. The key to scoring well was making relevant points for Callisto – the difficulties of measuring and managing home-working employees and strategic outsourcing partners.